

AstraZeneca

Price 5,086p

One year to go before kick-off

Fair Value 5220p (+3%)

BUY

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	5,220 / 3,774
Market Cap (GBP)	64,339
Ev (BG Estimates) (GBP)	76,580
Avg. 6m daily volume (000)	2,712
3y EPS CAGR	-3.6%

The breakfast we held last Friday with the group's CEO and CFO in Paris was very insightful and much appreciated by attendees. In spite of a few hiccups on the way, management is developing its strategy nicely and the level of confidence in achieving long-term targets is high. Key assets are due in respiratory and nephrology but the most exciting franchise is still oncology where the group is not ruling out the prospect of generating as much as 40% of its revenues by 2023.

ANALYSIS

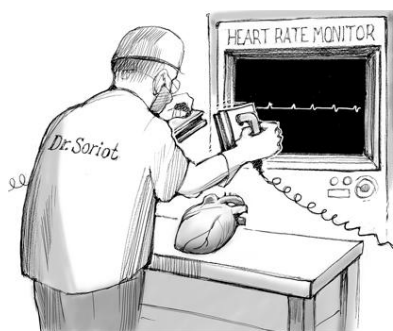
- Well advanced into the journey now – Pascal Soriot started as a CEO at AstraZeneca on 1st October 2012 and it was interesting to hear where we now stand. He actually divides the journey into three periods: 2012-2015 where the portfolio had to be rebuilt; 2016-2017 which is the trickiest period as this is when the patent cliff hits the bottom; 2018 and beyond when the company is poised to deliver very high growth rates.
- Very transparently, Pascal Soriot acknowledged that LT targets would probably differ in nature compared to initial expectations. Out of a very focused portfolio, Cardio/Metabolism is likely to be smaller than anticipated whereas oncology will be bigger. How much bigger? Depending on the outcomes of ongoing trials, this will be somewhere between 30% and 40% of total revenues in 2023. So far, we expect Oncology to represent 30% of total sales in 2022. Assuming that we are not too optimistic about non-Oncology assets, where might the difference come from? At least three potential pockets: (i) Tagrisso, which should benefit from both an expanded target market (data in 1L and on brain metastases to come) and limited competition as many have either failed or moved away. Soriot suggested that Tagrisso could now be “well in excess of USD3bn” with an “Herceptin-like type of profitability”. Clearly, we have to re-assess the case here as we have only USD1.6bn in our model; (ii) there are a wide range of scenarios for durvalumab but our current PoS of 50% only translates into USD1.875m sales in 2022 which leaves much more upside than downside at first glance, whatever happens to MYSTIC we would say. In any case, MYSTIC is not going to be black or white and a complete failure is highly unlikely; (iii) although it is at an earlier stage, there is also excitement around AZD1775, the WEE-1 inhibitor, notably in combination with Lynparza. We have no sales for this one, which is currently in phase II, in our model.
- In Cardio/Metabolism, despite disappointments for Diabetes in the US and with Brilinta (note that he mentioned that SOCRATES was actually not totally negative but likely to short in duration whereas EUCLID was only 40-45% PoS in their LT plans), they are very optimistic about their renal franchise and are expecting (i) ZS-9 to be approved early in 2017 in the US and to show it is a great drug that is well designed to tap a significant market; (ii) roxadustat to deliver first results in China in 2017 and to pave the way for success in a pre-dialysis setting; (iii) all this to leverage an existing Diabetes franchise which is very strong, especially outside the US.
- The last two growth drivers Pascal Soriot spent some time on were: (i) benralizumab, which is clearly AZN's best chance to keep its Respiratory franchise in growth mode as Symbicort (also because of Advair's analogues) is likely to decline. His guess is that benralizumab should show similar results to GSK's Nucala on exacerbations but superior profile on FEV1 whereas the drug is more convenient for the patient (no reconstitution, every other month). And so he believes benra could be an Humira-like product in the class; (ii) China is another growth opportunity for the group in which it has invested heavily (the sales force has been doubled over the last 3-4 years) to achieve leadership position (number 1 or 2 head and neck with Pfizer). Several drugs have still to be launched there including Farxiga or Brilinta, with very high hopes.

VALUATION

- Pascal Soriot and Marc Dunoyer strongly impressed a crowded room of investors. The path forward is very clear. Now of course, 2017 will be another (but the last) tough year to go through. And the share's performance in 2017 will be highly dependent on a few outcomes, including MYSTIC for sure. We will reassess the case and our numbers shortly.

NEXT CATALYSTS

- 8-12th October 2016: ESMO meeting (Copenhagen) - [Click here to download document](#)



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